

**Core Services Category:** General Government – Reorganization/Consolidation

**Study Area:** General Services Department, Risk Management Division (GSD/RMD), Public School Insurance Authority (PSIA), Albuquerque Public Schools (APS), and Retiree Health Care Authority (RHCA).

**High Level Recommendation:** Consolidate employee benefit programs currently administered by GSD/RMD, PSIA, APS, and RHCA—collectively referred to as the interagency benefits advisory committee (IBAC)—into one risk pool and create one uniform plan design, rate structure, administration and customer service organization for all public employees. In addition, the proposal would consolidate the risk programs currently administered by GSD/RMD, PSIA and APS. These programs include workers' compensation, public property, public liability, unemployment compensation, and surety bond coverage.

**Problem Statement:** In FY11, expenditures related to employee group health benefits are expected to reach \$1 billion, while medical inflation is expected to grow between 5 to 8 percent annually. Current participation among IBAC participants exceeds 200 thousand covered lives for medical, prescription, dental, vision, life and disability coverage. Each of the IBAC members provides duplicative services related to administration, procurement, and customer service. While the state's Health Care Purchasing Act (13-7-1 through 13-7-11) NMSA 1978 requires the collective bidding for services, it does not require the collective purchasing of services which may adversely affect the ability to leverage plan providers and achieve greater economies of scale.

By consolidating each of the IBAC groups there is an opportunity to create a uniform plan design and funding structure for all plan participants. The creation of a uniform plan design would ensure that an employee's benefits aren't richer or poorer as provided by one program or another. Secondly, by creating one funding structure we can eliminate the disparities between subsidy levels for state employees and public school employees.

In addition, consolidating the risk programs administered by GSD/RMD, PSIA and APS would serve to provide a central authority to manage public liability, public property, workers compensation, unemployment compensation and surety bond coverage for all public entities. There may be an opportunity to leverage the excess insurance carriers who provide catastrophic coverage for all lines of coverage.

**Background and Findings:** The General Services Department, Risk Management Division (GSD/RMD), Public Schools Insurance Authority (PSIA), Albuquerque Public Schools (APS) and Retiree Health Care Authority (RHCA) collectively referred to as the Interagency Benefits Advisory Committee (IBAC) provide medical, prescription, dental, vision and life insurance benefits to approximately two-hundred thousand public employees and eligible dependents at an annual cost approaching \$1 billion. Each of these groups is responsible for the plan design and the setting of premium contributions with premium increases a direct reflection of increases in the cost of members' health care costs.

Between FY06 and FY11 double digit growth in health care related expenditures for IBAC participants was common. Spending is now projected to grow an average of 8 percent annually.

- The purpose of the Retiree Health Care Act (10-7C-1 NMSA 1978) is to provide comprehensive core group health insurance for persons who have retired from certain public entities in New Mexico. The purpose is to provide eligible retirees, their spouses, dependents and surviving spouses and dependents with health insurance that can be purchased by funds flowing into the retiree health care fund and by co-payments or out-of-pocket payments of insureds.
- 15-7-3 NMSA 1978 provides the Risk Management Division of the General Services Department the authority to procure insurance, reinsurance or employee group benefits, subject to the provisions of the Health Care Purchasing Act (13-7-1 NMSA 1978) and other provisions of law. GSD/RMD self insures, like all other IBAC entities, and contracts with third-party administrators to provide claims payment, utilization review, disease management and pharmacy benefits management.
- The purpose of the Public School Insurance Authority Act (22-2-6.1–22-2-6.10) is to provide comprehensive core insurance programs, including reimbursement coverage for the costs of providing due process to students with disabilities, for all participating public schools, school board members, school board retirees and public school employees and retirees by expanding the pool of subscribers to maximize cost containment opportunities for required insurance coverage.
- APS is excluded from coverage under PSIA under Section J -- "school district" means a school district as defined in Subsection R of Section 22-1-2 NMSA 1978, excluding any school district with a student enrollment in excess of sixty thousand students. As such, the Employee Benefits Office at APS develops and administers the district's group health, dental, vision, Flexible Spending Accounts, Pre-Tax Insurance Premium Plan (PIPP), life insurance, long term disability, long term care insurance, 403(b) voluntary retirement savings plan, 457(b) deferred compensation plan, and 529 College Savings Plan, and provides assistance with final retirement processing, retiree life insurance, extended leave of absence, and sick leave bank administration.

Since 2004, several pieces of legislation have been introduced to create a Health Care Purchasing Authority (HCPA) to further consolidate the group health benefits insurance programs for state and public school employees, their dependents, and retirees. The proposed legislation was intended to save money by leveraging purchasing power and expanding health care coverage for the participants. Opposition from IBAC member agencies has stalled further consolidation.

Senate Joint Memorial 1 of the 2009 session requested meetings of public and quasi-public health coverage entities engaged in the administration, delivery and payment of health care services in New Mexico to elicit their cooperation in identifying areas of common interest and opportunities for consolidation.

In November 2009, a report was presented by HSD to the Health and Human Services Committee suggesting the following cost savings opportunities:

- Commercial carriers indicated that statewide public risk pool aggregation with Albuquerque metro area public plans could lead to cost savings;
- Administrative service costs could be reduced by administering similar benefit plans and larger risk pools;
- Consolidate customer service units from each organization;
- Implement a fixed payment methodology for rural hospitals' outpatient services similar to Medicare;
- Savings could be achieved through consumer-driven reduced benefit plans;
- Consider using one actuary for all public plans consulting;
- Restrict coverage options such that if two state employees have GSD coverage, require the higher paid employee to take-up coverage at a lower subsidy;
- Limit out-of-state coverage;
- Reduce benefit plan designs, increase copays, deductibles, office visit copays, or reduce dependent coverage options;
- Expand authority of the Health Care Purchasing Act and require joint procurement and purchasing by IBAC agencies; and
- Implement a common enrollment process that is electronic to enhance speed and efficiency.

Although there was no consensus regarding any one approach mentioned above, the report suggested that a cost analysis of these options could result in savings. In addition, the SJM1 report noted that Oregon and Kansas are the only states have acted to consolidate their public health coverage purchasing and administration under one authority.

The table below provides information on IBAC appropriations over the last three fiscal years from all sources:

		FY09	FY10	FY11
GSD/RMD				
	Employee Group Health Benefits	\$ 335,034.3	\$ 381,788.0	\$ 353,074.5
	Risk Program	\$ 70,424.3	\$ 84,384.5	\$ 81,593.9
	<b>Subtotal</b>	<b>\$ 405,458.6</b>	<b>\$ 466,172.5</b>	<b>\$ 434,668.4</b>
PSIA				
	Benefits	\$ 285,408.7	\$ 286,321.6	\$ 286,308.1
	Risk Program	\$ 50,222.9	\$ 58,538.9	\$ 57,342.8
	Program Support	\$ 1,287.8	\$ 1,323.1	\$ 1,296.2
	<b>Subtotal</b>	<b>\$ 336,919.4</b>	<b>\$ 346,183.6</b>	<b>\$ 344,947.1</b>
RHCA				
		\$ 199,782.8	\$ 220,204.9	\$ 223,424.1
APS				
	Benefits	\$ 73,211.5	\$ 78,824.7	\$ 81,176.1
	Risk Program	\$ 800.0	\$ 630.0	\$ 619.0
	<b>Subtotal</b>	<b>\$ 74,011.5</b>	<b>\$ 79,454.7</b>	<b>\$ 81,795.1</b>
<b>Total</b>		<b>\$ 942,960.8</b>	<b>\$ 1,033,191.0</b>	<b>\$ 1,003,658.6</b>

- **PSIA:** Beginning in 2008, PSIA experienced a surge in claims that exceed the available revenue sources resulting in a negative fund balance situation of negative \$8 million in June 2009. PSIA was approaching a situation where they might not have been able to reimburse providers for claims incurred. As a result, the PSIA board was required to implement plan design changes increasing deductibles, copays and coinsurance for plan participants seeking medical and prescription services.
- **GSD/RMD:** In response to flat funding levels for FY10 and FY11, GSD was required to implement plan design changes including increased copays, deductibles and annual out-of-pocket expenses for active employees.
- **RHCA:** During the fall of 2008 the RHCA program was projected to become insolvent by 2014 at which time expenditures were expected to exceed all available revenues sources. In response to these challenges the legislature proposed and the executive signed House Bill 351 which gradually increases employee and employer contributions to the program over a 4 year period beginning in FY11. In addition, the RHCA board adopted plan design changes, increased retiree premiums and limited plan options. Combined these efforts extended the projected solvency of the program to 2025.
- **APS:** APS was able to increase premiums an average of 5 percent to offset projected increases in medical plans cost; increase copays for PCP and specialist office visits; as well as inpatient hospital copays.
- GSD/RMD offers 2 health care plan options administered by 4 different health care companies.
- PSIA offers 2 health care plan options administered by 2 different health care companies.
- RHCA offers 2 health care plan options administered by 2 different health care companies.
- APS offers 2 health care plan options administered by 2 different health care companies.

**Goals:**

- Coordinate and leverage the purchase of health care products and services
- Creation of uniform plan design and premium structure for all public employees
- Eliminate duplicative administration, IT, and customer service resources
  - Possible savings related to reduction in personal services and employee benefits
  - Possible savings related to co-locate administrative and customer service operations

**Options to Consider:**

Option 1: Consolidate GSD, PSIA, APS and RHCA into an executive agency directly accountable to the Governor and Legislature and reorganize governance structure to eliminate board participation.

Option 2: Consolidate GSD, PSIA, APS and RHCA into an executive agency or authority that is governed by a board with representatives from each of the existing groups and include participation from the DFA Secretary or State Budget Director.

#### Fiscal Implications:

**Estimated Savings (in thousands of dollars)**

<b>FY11</b>	<b>FY12</b>	<b>Recurring or Nonrecurring</b>	<b>Fund Affected</b>
NA	\$775.0	R	Group health benefits funds administered by each agency related to reduction in program managers, deputy directors and directors involved in current structure.
NA	\$10,000 - \$50,000	R	Group health benefits funds. Savings related to leveraging of plan providers, reduction in administrative costs, and the creation of uniform plan design and rate structure.

The projected administrative savings associated with the proposed consolidation would be minimal compared to the savings related to the leveraging of plan providers and efforts to reduce health care costs as the vast majority of program expenditures are related to claims costs. There would also be savings related to economies of scale as we reduce the number of FTE and contract staff dedicated to customer service, billing, accounting, and providing actuarial services.

Upon consolidation of the IBAC members, the IBAC group could then approach the health care plan provider community as a unified organization that represents \$1 billion in annual purchasing power to negotiate health care plan costs. If the newly formed group could save between 2 and 5 percent annually, savings would approach \$10 million to \$50 million per year. There may be some additional savings should the IBAC expand membership to include participation from the University of New Mexico and the University of New Mexico hospital, City of Albuquerque, and City of Rio Rancho.

There will likely be some upfront costs associated with consolidating IT systems, moving expenses, as well as legal and actuarial services.

**Cost to Implement (in thousands of dollars)**

<b>FY11</b>	<b>FY12</b>	<b>Recurring or Nonrecurring</b>	<b>Fund Affected</b>
Unknown	Unknown	Recurring	Employee group health benefit funds administered by each of the IBAC entities.
Unknown	Unknown	Recurring	Risk fund administered by each of the IBAC entities.

**Implementation Plan:** Repeal the appropriate sections of the Retiree Health Care Act (10-7C-1 NMSA 1978), and the enabling legislation that applies to GSD's risk and employee group health benefits programs (15-7-3 NMSA 1978), and the Public School Insurance Authority Act (22-2-6.1-22-2-6.10).

**Concerns:** The proposed changes would likely encounter opposition from each of the existing IBAC groups unless they were identified as the “key organization” responsible for implementation. APS will lobby and argue that changes to the program will result in increased costs for APS employees. It is unlikely that RHCA’s and PSIA’s governing boards would support any proposal that would eliminate the need for their existence.

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